

ATTORNEY GRIEVANCE COMMISSION  
OF MARYLAND  
Annapolis, Maryland

AUDITED FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Attorney Grievance Commission of Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of the Attorney Grievance Commission of Maryland, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of budget, receipts, expenditures, and fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Attorney Grievance Commission of Maryland as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

In our report dated November 18, 2015, we expressed an opinion that the 2015 financial statements did not fairly present the financial position, changes in net assets, and cash flows of Attorney Grievance Commission of Maryland in accordance with accounting principles generally accepted in the United States of America because Attorney Grievance Commission of Maryland did not capitalize its property, plant, and equipment and did not account for depreciation expense. In the past, the Commission has expensed property and equipment at the date of purchase. As described in Note 10, the entity has changed its method of accounting for these items and restated its 2015 financial statements to conform to accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated 2015 financial statements, as presented herein, is different from that expressed in our previous report.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink, appearing to read "Heimhaut", with a stylized flourish at the end.

Annapolis, Maryland  
October 5, 2016

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND  
BALANCE SHEETS  
JUNE 30, 2016 and 2015**

|   | <b>2016</b>         | <b>2015</b>         |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>CURRENT ASSETS</b>                                 |                     |                     |
| Cash and cash equivalents                             | \$ 113,880          | \$ 352,734          |
| Investments   | 3,849,238           | 3,649,824           |
| Attorney assessments receivable                       | 2,880               | 10,470              |
| Due from Client Protection Fund - salary and benefits | 117,340             | 121,168             |
| Other receivables                                     | -                   | 5,641               |
| Pension receivable                                    | 10,421              | -                   |
| Prepaid expenses                                      | 23,454              | 35,054              |
| <b>TOTAL CURRENT ASSETS</b>                           | <b>4,117,213</b>    | <b>4,174,891</b>    |
| <b>NON-CURRENT ASSETS</b>                             |                     |                     |
| Property and equipment, net                           | 92,740              | 149,875             |
| Security deposits                                     | 20,020              | 20,020              |
| <b>TOTAL NON-CURRENT ASSETS</b>                       | <b>112,760</b>      | <b>169,895</b>      |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 4,229,973</b> | <b>\$ 4,344,786</b> |
| <b>LIABILITIES AND FUND BALANCE</b>                   |                     |                     |
| <b>CURRENT LIABILITIES</b>                            |                     |                     |
| Accounts payable and other current liabilities        | \$ 174,881          | \$ 77,779           |
| Pension payable                                       | -                   | 19,222              |
| Accrued compensated absences                          | 272,369             | 310,415             |
| Current portion of deferred lease expense             | 5,859               | 5,859               |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <b>453,109</b>      | <b>413,275</b>      |
| Deferred lease expense                                | 46,875              | 52,735              |
| Retiree health insurance credit plan                  | 267,470             | 156,293             |
| <b>TOTAL LIABILITIES</b>                              | <b>767,454</b>      | <b>622,303</b>      |
| <b>FUND BALANCE</b>                                   |                     |                     |
| Restricted  | 192,898             | 408,778             |
| Unrestricted  | 3,269,621           | 3,313,705           |
| <b>TOTAL FUND BALANCE</b>                             | <b>3,462,519</b>    | <b>3,722,483</b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b>             | <b>\$ 4,229,973</b> | <b>\$ 4,344,786</b> |

The accompanying notes are an integral part of the financial statements.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**STATEMENTS OF BUDGET, RECEIPTS, EXPENDITURES, AND FUND BALANCE**  
**FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

|   | <u>2016</u>         |                     |   | <u>2015</u>         |                    |   |
|---|---------------------|---------------------|---|---------------------|--------------------|---|
|   | <u>Actual</u>       | <u>Budget</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> | <u>Actual</u>       | <u>Budget</u>      | <u>Variance<br/>Positive<br/>(Negative)</u> |
| <b>COMMISSION RECEIPTS</b>                                  |                     |                     |   |                     |                    |   |
| Attorney Assessments  | \$ 4,044,737        | \$ 4,093,215        | \$ (48,478)                                 | \$ 4,151,923        | \$ 4,010,055       | \$ 141,868                                  |
| Investment Income   | 27,788              | 30,000              | (2,212)                                     | 24,440              | 30,000             | (5,560)                                     |
| Court Recovered Costs                                       | 54,976              | 25,000              | 29,976                                      | 58,627              | 25,000             | 33,627                                      |
| CPF Reimbursements  | 380,807             | 372,946             | 7,861                                       | 347,608             | 334,398            | 13,210                                      |
| <b>TOTAL RECEIPTS</b>                                       | <u>4,508,308</u>    | <u>4,521,161</u>    | <u>(12,853)</u>                             | <u>4,582,599</u>    | <u>4,399,453</u>   | <u>183,146</u>                              |
| <b>COMMISSION EXPENSES</b>                                  |                     |                     |   |                     |                    |   |
| Personnel Costs   | 2,801,306           | 3,026,824           | (225,518)                                   | 2,696,240           | 2,911,962          | (215,722)                                   |
| Case Management Costs                                       | 241,859             | 291,349             | (49,490)                                    | 276,904             | 283,349            | (6,445)                                     |
| Staff Support   | 89,193              | 135,000             | (45,807)                                    | 102,006             | 139,000            | (36,994)                                    |
| Outside Services  | 55,886              | 55,000              | 886   | 38,547              | 41,000             | (2,453)                                     |
| Information Technology Support                              | 201,226             | 213,000             | (11,774)                                    | 223,246             | 196,000            | 27,246                                      |
| Office Expense  | 412,730             | 400,636             | 12,094                                      | 284,217             | 300,900            | (16,683)                                    |
| Court Mandated Costs  | 153,644             | 156,910             | (3,266)                                     | 185,590             | 156,910            | 28,680                                      |
| Office of Executive Secretary                               | 173,165             | 181,372             | (8,207)                                     | 169,204             | 184,883            | (15,679)                                    |
| Client Protection Fund - Payroll                            | 230,485             | 230,485             | -   | 231,561             | 225,324            | 6,237                                       |
| <b>TOTAL EXPENDITURES</b>                                   | <u>4,359,494</u>    | <u>4,690,576</u>    | <u>(331,082)</u>                            | <u>4,207,515</u>    | <u>4,439,328</u>   | <u>(231,813)</u>                            |
| <b>INCREASE (DECREASE) IN UNRESTRICTED<br/>FUND BALANCE</b> | <u>\$ 148,814</u>   | <u>\$ (169,415)</u> | <u>\$ 318,229</u>                           | <u>\$ 375,084</u>   | <u>\$ (39,875)</u> | <u>\$ 414,959</u>                           |
| <b>FUND BALANCE, BEGINNING OF YEAR</b>                      | 3,722,483           |                     |   | 3,347,399           |                    |   |
| <b>RESTRICTED FUND BALANCE, PRIOR YEAR</b>                  | (408,778)           |                     |   | -                   |                    |   |
| <b>RESTRICTED FUND BALANCE, CURRENT YEAR</b>                | 192,898             |                     |   | 408,778             |                    |   |
| <b>UNRESTRICTED FUND BALANCE</b>                            | <u>3,269,621</u>    |                     |   | <u>3,313,705</u>    |                    |   |
| <b>FUND BALANCE, END OF YEAR</b>                            | <u>\$ 3,462,519</u> |                     |   | <u>\$ 3,722,483</u> |                    |   |

The accompanying notes are an integral part of the financial statements.

**THE ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|
| Increase in unrestricted fund balance:   | \$ 148,814        | \$ 375,084        |
| Adjustments to reconcile increase in unrestricted fund balance to cash provided (used) by operating activities |                   |                   |
| Depreciation   | 68,053            | 57,029            |
| (Increase) decrease in:  |                   |                   |
| Attorney assessments receivable  | 7,590             | 8,924             |
| Due from Client Protection Fund  | 3,828             | 107,349           |
| Other receivables  | 5,641             | (5,641)           |
| Prepaid expenses   | 11,600            | (25,780)          |
| Pension receivable   | (10,421)          | -                 |
| Security deposits  | -                 | (20,020)          |
| Increase (decrease) in:  |                   |                   |
| Accounts payable   | 97,102            | (9,191)           |
| Pension payable  | (19,222)          | (4,581)           |
| Accrued compensated absences   | (38,046)          | 5,352             |
| Retiree health insurance credit plan   | 111,177           | 53,114            |
| Deferred lease expense   | (5,860)           | 58,594            |
| Excess fund balance  | (408,778)         | (107,142)         |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>  | <b>(177,336)</b>  | <b>118,007</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Sale of investments - net  | (199,414)         | (101,493)         |
| Purchase of property & equipment   | (10,919)          | (67,953)          |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>   | <b>(210,333)</b>  | <b>(169,446)</b>  |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | <b>(238,855)</b>  | <b>323,645</b>    |
| <b>CASH AT BEGINNING OF YEAR</b>   | <b>352,734</b>    | <b>29,089</b>     |
| <b>CASH AT END OF YEAR</b>   | <b>\$ 113,880</b> | <b>\$ 352,734</b> |

The accompanying notes are an integral part of the financial statements.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 and 2015**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES**

*Nature of the Commission*

The Attorney Grievance Commission of Maryland, (the Commission) was authorized and created by the Court of Appeals of Maryland on February 10, 1975 to supervise and administer the discipline and inactive status of attorneys under Maryland rules. The Commission oversees the conduct of both Maryland lawyers and nonmembers of the Maryland Bar who engage in the practice of law in the State. The Commission investigates and, where indicated, prosecutes attorneys whose conduct violates the Maryland Lawyers Rules of Professional Conduct as well as those engaged in the unauthorized practice of law.

*Basis of Accounting*

As an instrumentality of the Maryland Court of Appeals, the Commission maintains its accounting records on a basis consistent with a governmental special revenue fund. These funds are used to account for the proceeds of revenue sources that are restricted to expenditures for specific purposes. These financial statements reflect only the activity of an unrestricted fund. There are no permanently or temporarily restricted funds.

*Revenue and Revenue Recognition*

Attorney assessments are the Commission's primary source of revenue. Assessments are received through payments made by individual attorneys to the Client Protection Fund of the Bar of Maryland (the Fund) on a billing which includes assessments for the Fund, the Maryland Professionalism Center, and the Commission. These assessments are required by the Maryland court system on an annual basis by any individual who is admitted to practice before the Court of Appeals or is issued a certificate of special authorization under Rule 15 of the Rules Governing Admission to the Bar of Maryland, or any individual who holds himself or herself out as being admitted to practice in Maryland by any means.

Since there is no requirement that an individual remain admitted to practice law in the State of Maryland, assessments are deemed to be revenue only when collected, the only receivable on these financial statements are assessments collected by the Client Protection Fund but not yet remitted to the Commission. Based on prior experience, management feels that all amounts will be collected; therefore, there is no allowance for doubtful accounts included in these financial statements. The assessment for the Commission was \$105 for the years ended June 30, 2016 and 2015, for each attorney in practice. The number of practicing attorneys assessed during the years ended June 30, 2016 and 2015 was 40,707 and 38,150, respectively.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Income Tax Status*

The Commission is an instrumentality of the Maryland Court of Appeals and as such is not subject to income taxes. Accordingly, no provision has been made. The Commission believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

*Cash and Cash Equivalents*

Cash and cash equivalents represent cash held in checking, savings and money market accounts with original maturities of less than ninety days.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016 and 2015**

Property and Equipment

Acquisitions of equipment and furniture and all expenditures for repairs, maintenance, and betterments costing \$1,000 or greater that materially prolong the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Equipment and furniture are stated at cost, less accumulated depreciation. Depreciation and amortization are computed using the straight-line method over estimated useful lives of three to thirty-nine years. Leasehold improvements are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Investments - other

The Commission invests in U.S. Government securities and certificates of deposit, including Treasury Bills and Treasury notes. Investments are recorded at market value as of the balance sheet date.

Compensated Absences

The entity accrues a liability for certain sick leave, and all annual leave which has been earned but not taken by the employees. Employees can earn a maximum of 25 days for annual leave a year. Annual leave can be accumulated up to 35 days. There is no requirement that annual leave be taken in the year earned. Upon termination, employees are paid for any accumulated annual leave. Employees hired prior to January 1, 1989 are reimbursed one third of accumulated sick leave, up to sixty days upon termination. Employees hired after 1988 are not reimbursed for accumulated sick leave.

**NOTE 2 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of June 30:

|                               | 2016      | 2015       |
|-------------------------------|-----------|------------|
| Computer equipment            | \$ 70,831 | \$ 61,180  |
| Furniture and fixtures        | 65,133    | 63,866     |
| Leasehold improvements        | 17,390    | 17,390     |
| Software                      | 118,796   | 118,796    |
| Total property and equipment  | 272,150   | 261,231    |
| Less accumulated depreciation | 179,409   | 111,356    |
| Property and equipment, net   | \$ 92,740 | \$ 149,875 |

Depreciation expense for the periods ending June 30, 2016 and 2015 was \$68,053 and \$57,029, respectively.

**NOTE 3 – INVESTMENTS**

Investments are stated at their readily determinable fair value at June 30, 2016 and June 30, 2015 and are comprised of available-for-sale securities as follows:

|                         | June 30, 2016  |   |                                 |              |
|-------------------------|--|---|---------------------------------|--------------|
| Amortized cost          | <u>Gains in<br/>accumulated<br/>comprehensive<br/>income</u> | <u>Losses in<br/>accumulated<br/>comprehensive<br/>income</u> | <u>Estimated fair<br/>value</u> |              |
| Certificates of Deposit | \$ 3,845,000   | \$ 4,238  | \$ -0-                          | \$ 3,849,238 |
| Total                   | \$ 3,845,000   | \$ 4,238  | \$ -0-                          | \$ 3,849,238 |

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016 and 2015**

| <u>June 30, 2015</u>    |                       |  |   |                                 |
|-------------------------|-----------------------|--|---|---------------------------------|
|                         | <u>Amortized cost</u> | <u>Gains in<br/>accumulated<br/>comprehensive<br/>income</u> | <u>Losses in<br/>accumulated<br/>comprehensive<br/>income</u> | <u>Estimated fair<br/>value</u> |
| Certificates of Deposit | \$ 3,646,222          | \$ 3,602   | \$ -0-  | \$ 3,649,824                    |
| Total                   | <u>\$ 3,646,222</u>   | <u>\$ 3,602</u>  | <u>\$ -0-</u>   | <u>\$ 3,649,824</u>             |

For the years ending June 30, 2016 and 2015, investment income consisted of the following:

| <u>Year ended</u>       | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|-------------------------|----------------------|----------------------|
| Interest Income         | \$ 27,258            | \$ 23,215            |
| Unrealized Gain/(Loss)  | <u>530</u>           | <u>1,225</u>         |
| Total Investment Income | <u>\$ 27,788</u>     | <u>\$ 24,440</u>     |

For purposes of determining gross realized gain/loss, securities sold are based on specific identification.

**NOTE 4 – FAIR VALUE MEASUREMENTS**

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial instruments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are financial instruments where values are based on unadjusted quoted prices for an identical asset in an active market the Commission has the ability to access.

**Level 2.** These are financial instruments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the financial instruments.

**Level 3.** These are financial instruments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the financial instruments. These financial instruments include non-readily marketable securities that do not have an active market.

All of the Commissions' investments are stated at fair value on a recurring basis, using level 1 inputs. Unrealized gains and losses are included as a component of investment income.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016 and 2015**

| <u>Year ending</u>       | <u>June 30 2016,</u> | <u>June 30, 2015</u> |
|--------------------------|----------------------|----------------------|
| Certificates of Deposit  | \$ 3,849,238         | \$ 3,598,864         |
| US Government Securities | -                    | 50,960               |
| Total Investments        | <u>\$ 3,849,238</u>  | <u>\$ 3,649,824</u>  |

**NOTE 5 - PENSION PLAN**

The Commission sponsors a trustee defined contribution pension plan covering substantially all employees meeting minimum age and service requirements. Contributions to the plan during the years ended June 30, 2016 and 2015 were \$286,734 and \$282,204, respectively. This amount is equal to 15% of the participant's compensation.

**NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS**

On September 1, 2012 the Commission adopted an Other Postemployment Benefit Plan (OPEB) in order to provide health insurance expense reimbursement benefits to eligible retirees and their surviving spouses. The official name of the plan is “The Attorney Grievance Commission of Maryland Retiree Health Insurance Credit Plan.” The Eligible retirees will include employees with at least ten years of service and have attained age fifty-five, or persons who have become disabled and are receiving benefits under the terms of the Social Security Act. Surviving spouses must have been covered under this plan at the time of the retiree’s death and enroll in the Plan on the first day of the month following the death of the covered retiree. Plan benefits will be paid directly by the Commission to the retiree at a rate of the lesser of \$4,200 annually or their actual health insurance premiums. The total contribution expense charged as an expenditure in the current year was \$123,000. The actual and estimated schedules of employer contributions and funding progress are as follows through June 30, 2016, assuming a discount rate of 3.5%:

Schedule of Employer Contributions

| Year Ended<br>June 30, | Annual OPEB<br>Cost | Actual<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation |
|------------------------|---------------------|------------------------|---------------------------|------------------------|
| 2014                   | \$57,000            | \$6,996                | 12.3%                     | \$103,179              |
| 2015                   | \$59,000            | \$5,886                | 9.98%                     | \$156,293              |
| 2016                   | \$123,000           | \$11,823               | 9.61%                     | \$267,470              |

Schedule of Funding Progress

| Actuarial<br>Valuation Date | Actuarial Value<br>of Assets | Actuarial<br>Accrued Liability<br>(AAL) | Unfunded AAL<br>(UAAL) | Funded Ratio |
|-----------------------------|------------------------------|---|------------------------|--------------|
| 7/1/2014                    | \$0                          | \$418,000                               | \$418,000              | 0.0%         |
| 7/1/2015                    | \$0                          | \$848,000                               | \$848,000              | 0.0%         |
| 7/1/2016                    | \$0                          | \$903,000                               | \$903,000              | 0.0%         |

**NOTE 7 – LEASE COMMITMENT**

The Commission leases office space in Annapolis, MD. The lease calls for monthly rental payments beginning on July 1, 2016. The lease is an operating lease and the agreement expires in 2025, with an option to renew for up to five years. In the normal course of business, it is expected that available options to renew will be exercised.

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2016 and 2015**

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In addition, part of the new lease included a lease incentive of deferred lease expense for the first three months of the agreement. The total remaining amount of deferred lease expense provided by the lessor was \$52,735. This amount is reported on the Balance Sheet as deferred lease expense and is amortized over the life of the lease.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

|               |                     |
|---------------|---------------------|
| June 30, 2017 | \$ 240,236          |
| June 30, 2018 | 240,236             |
| June 30, 2019 | 240,236             |
| June 30, 2020 | 240,236             |
| June 30, 2021 | <u>240,236</u>      |
| Total         | <u>\$ 1,201,180</u> |

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Commission has significant transactions with the Client Protection Fund of the Bar of Maryland, an instrumentality of the State of Maryland. All assessments of the Client Protection Fund of the Bar of Maryland and the Attorney Grievance Commission of Maryland are billed and collected by the Client Protection Fund of the Bar of Maryland and the Commission's portion is transferred monthly by check.

During the years ending June 30, 2016 and 2015 the Client Protection Fund of the Bar of Maryland incurred fees for salaries and benefits used in the billing and collection process in the amount of \$342,187 and \$378,518, respectively. At June 30, 2016 and 2015, the Client Protection Fund of the Bar of Maryland owed these fees to the Commission in the amount of \$117,340 and \$121,168, respectively. In addition, the Client Protection Fund of the Bar of Maryland owed to the Commission attorney assessments in the amount of \$2,880 and \$10,470 at June 30, 2016 and 2015, respectively.

**NOTE 9 – BONDS**

The Commission has a \$6,000,000 blanket crime protection insurance policy in effect for employee dishonesty.

**NOTE 10 – CONTINGENCIES**

Prior to the 2014 fiscal year, the Maryland Court of Appeals, at its discretion, was permitted to order a transfer of funds from the Commission to court related agencies. On March 13, 2014 an Administrative Order was issued by the Maryland Court of Appeals, requiring the Commission to maintain a Fund Balance of 75% of the prior year's fiscal expenditures. Any excess Fund Balance amount would be due to the Client Protection Fund, as of 30 days following the issuance of annual audited financial statements. As this amount cannot be determined by the Commission as of the fiscal year end, and it has not been declared or approved by the Courts, it is not a current liability of the Commission, but rather a restricted portion of the fund balance. Per this Order, at June 30, 2016 and 2015, the Commission owed \$192,898 and \$408,778 to the Client Protection Fund, respectively. This amount is set aside as "Restricted Fund Balance" on the June 30, 2016 and 2015 balance sheets.

**NOTE 11 – PRIOR PERIOD ADJUSTMENT**

Management has restated the balance of retained earnings as previously reported in its financial statements as of June 30, 2015. After the 2015 financial statements were issued, management decided to adopt a new accounting policy to capitalize acquisitions of equipment and furniture and all expenditures for repairs, maintenance and betterments costing \$1,000 or more, which, in addition to being applied to the year ended June 30, 2016, was also

**ATTORNEY GRIEVANCE COMMISSION OF MARYLAND**  
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applied retroactively to all prior years. Previously, the Commission had expensed the costs mentioned above as they were incurred. The effect of this change on the financial statements is detailed below:

|                                    | <u>Previously Reported</u> | <u>Increase (Decrease)</u> | <u>Restated</u> |
|------------------------------------|----------------------------|----------------------------|-----------------|
| Property and Equipment, net        | -                          | 149,875                    | 149,875         |
| Depreciation Expense               | -                          | 57,029                     | 57,029          |
| Operating Expenses                 | 4,218,438                  | (10,923)                   | 4,207,515       |
| Net income                         | 364,161                    | 10,923                     | 375,084         |
| Retained Earnings at June 30, 2015 | 3,163,831                  | 149,874                    | 3,313,705       |

**NOTE 12 – MANAGEMENT’S SUBSEQUENT REVIEW**

The Commission has evaluated subsequent events through October 5, 2016, the date which the financial statements were available to be issued, and no events were noted that would materially impact the financial statements.